

BEFORE THE
MONTANA PUBLIC SERVICE COMMISSION
DOCKET D2005.4.49

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DIRECT TESTIMONY OF JOHN A. KAPPES
MOUNTAIN WATER COMPANY PUBLIC SERVICE
COMMISSION

Q. Please state your name and business address.

A. My name is John Kappes. My business address is Mountain Water Company, 1345 W.
Broadway, Missoula Montana, 59802.

Q. What is your position at Mountain Water Company?

A. I am Assistant General Manager/Vice President for Mountain Water Company.

Q. Did you testify on Mountain's cost of service in its last general rate case, PSC Docket
D2005.4.49?

A. Yes I did.

Q. What is the purpose of this testimony?

A. The Commission, in its final order in Docket D2005.4.49, decided that the City of Missoula should
not be charged for public fire protection service. Instead, Mountain is to charge the cost of public
fire protection service to Mountain's other customer classes. Mountain was directed in the
Commission's final order to prepare and file in the docket a new cost allocation "for fairly charging
Mountain's customers directly for public fire protection service". Order 6644c at Finding of Fact
44, and ordering paragraph 6. My testimony presents Mountain's filing to comply with the
Commission's directive.

1 Q. Please explain how Mountain prepared its compliance filing.

2
3 A. The Commission suggested in its final order that Mountain consider using the base-extra capacity
4 allocation methodology that the City discussed in its testimony to the Commission. In accordance
5 with the Commission's suggestion, Mountain retained HDR Engineering, Inc. to prepare a cost of
6 service allocation methodology for Mountain, using the base-extra capacity method. My Exhibit
7 JK-1 is the cost of service allocation (COSA) study prepared for us by HDR Engineering, Inc.
8 The new COSA provided the guidelines for reallocating public fire protection charges away from
9 the City of Missoula and to Mountain's other customer classes. The new COSA will be used by
10 Mountain in subsequent general rate case filings.

11 Q. Please explain how the new COSA was applied to the revenue requirement established in the
12 Commission's final order in D.2005.4.49.

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14 A. Exhibits 19, 25, 26 and 27 from the COSA were used to restate Statement L. The original
15 Statement L and a revised Statement L are submitted as part of this testimony as Exhibit JK-2
16 and Exhibit JK-3, respectively.

17 The amounts on Exhibit 25 were summarized by Metered, Unmetered Public Fire, Private
18 Fire and Miscellaneous for each of the classification components (Base, Max Day, Actual
19 Customer, Weighted Customer Accounting, Weighted Meters, Fire Protection, Revenue Related
20 and Return Component). The Public Fire Costs were then re-allocated to the Unmetered and
21 Metered classes in the amounts shown in Exhibit 26 on the line entitled "+/- Re-Allocation of
22 Public Fire Costs." These amounts were developed based on estimated fire protection
23 requirements as shown on Exhibit 19. The Private Fire Costs were also re-allocated in the
24 amounts shown in Exhibit 26 on the line entitled "Re-Distribution of Private Fire Costs." These
25 amounts were developed based on the pro-rata share of costs assigned to the Unmetered and
Metered classes, including the re-allocation of Public Fire Costs. The final cost allocation totals
are the same as those found in Exhibit 27, excluding the amount for Miscellaneous Revenues.

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2 Q. Why did you re-allocate Private Fire Costs in your revised Statement L?

3
4 A. The cost of service established in PSC Docket D2005.4.49 set a cost basis for Private Fire of
5 \$118,980, compared with \$58,937 in the new COSA. The costs for Private Fire are paid primarily
6 by businesses for fire lines that supply their internal sprinkler systems. The effect of using the
7 new COSA as the basis for Private Fire would be a reduction in existing rates by just over 50%,
8 and a rate increase of \$58,937 to the remaining customer classes. In the interest of rate stability,
9 and to reflect the very limited nature of this filing, we needed to allocate those costs back to
10 Private Fire to maintain the status quo.

11 Q. Are you proposing any changes to your existing rate design?

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13 A. No we are not, as this filing is being made for the limited purposes of complying with the
14 Commission's directive in Order 6644c. The results of the new COSA do indicate a possible
15 need for evaluation of alternative rate designs. Such changes will be explored in subsequent
16 general rate filings using the new COSA.

17 Q. Please explain how Mountain reallocated public fire protection costs in accordance with the new
18 COSA.

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20 A. My Exhibit JK-4 presents the detail of the proposed changes. Exhibit 27 of the COSA indicates
21 Mountain needs to raise rates to the unmetered customers by \$465,829, and reduce rates for the
22 metered customers by \$40,166. Since the purpose of this filing is to determine an equitable
23 method of re-allocating public fire costs, Mountain proposes to limit the increases for the
24 unmetered customers to just the amount required to accomplish the re-allocation, leaving the
25 metered rates unchanged.

1 Please note that the proposed increase to Unmetered Irrigation is quite significant. The
2 new COSA highlights a substantial gap between the amount of revenue currently being collected
3 from this group of customers and the amount that should be collected. Mountain's proposed
4 changes will almost fully implement the required cost increase for customers in the Unmetered
5 Irrigation class, and distribute the remainder of the increase to the other unmetered classes on a
6 pro-rata basis.

7 Q. Why are you proposing that the unmetered customers absorb the entire revenue requirement
8 originally assigned to Public Fire Protection customers?
9

10 A. The new COSA indicates that the revenues currently being collected from the unmetered class
11 are almost 11% lower than the estimated cost to serve these customers, while the revenues
12 being collected from the metered class are already slightly higher than their cost of service.
13 Allocating the cost of public fire protection to the unmetered class in this filing largely corrects the
14 inequities found in the existing rates in the new COSA. It will bring the revenues collected from
15 the unmetered customers to within 1% of the estimated cost to serve them, while leaving the
16 metered class less than one-half of one percent over their estimated cost of service.

17 Q. There was an increase effective on October 1, 2006, related to the Power Tracker Tariff. Does
18 this affect the increases required to implement the new COSA?
19

20 A. It does affect the final percentage increases, though not the total dollar amounts proposed as
21 increases for the unmetered class. Exhibit JK-5 restates the increases based on the October 1
22 rate change. You will note that the amounts shown in column 2 on Exhibit JK-4 match the
23 amounts in column 4 on Exhibit JK-5.
24

25 Q. Are you proposing any changes in the size of the discount provided to low-income customers?

1 A. Yes, we propose an increase to the discount equal to the average increase being recommended
2 for the unmetered customer class. Approximately 75% of the monthly discount is credited to
3 unmetered residential customers, so it seems appropriate to increase the discount given that the
4 proposed rate increases will fall entirely on that customer class. The current monthly discount
5 amount is \$5.30. Mountain proposes that amount increase \$.50 per month, or 9.4%. The new
6 discount amount would then be \$5.80 per month per eligible customer.

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8 Q. Does this conclude your testimony?

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10 A. Yes, it does.
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